

UPDATE ON STATE REVENUES AND THE EARNED INCOME CREDIT

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Bureau of Revenue Estimates

Maryland General Fund Revenues

Fiscal Years 2022 - 2024

		FY 2023				FY 2024			
\$ Thousands	FY 2022 Actual	September Estimate	December Estimate	Difference	Growth	September Estimate	December Estimate	Difference	Growth
INCOME TAXES:									
Individual	13,548,045	14,091,877	14,052,616	(39,261)	3.7%	14,846,299	14,667,670	(178,629)	4.4%
Corporation	1,700,268	1,477,464	1,477,464	-	-13.1%	1,622,505	1,622,505	-	9.8%
Total	15,248,313	15,569,341	15,530,080	(39,261)	1.8%	16,468,804	16,290,175	(178,629)	4.9%
SALES AND USE TAXES	5,966,843	6,150,168	6,150,168	-	3.1%	6,194,835	6,194,835	-	0.7%
STATE LOTTERY	635,075	650,458	636,451	(14,007)	0.2%	650,386	622,942	(27,445)	-2.1%
OTHER REVENUES									
Business Franchise Taxes	264,443	219,156	222,983	3,826	-15.7%	223,039	223,872	832	0.4%
Tax on Insurance Companies	631,380	607,272	648,027	40,756	2.6%	623,013	664,910	41,897	2.6%
Estate and Inheritance Taxes	266,055	250,427	268,741	18,314	1.0%	231,055	229,043	(2,012)	-14.8%
Tobacco Tax	479,158	482,248	463,766	(18,482)	-3.2%	437,477	424,538	(12,938)	-8.5%
Alcoholic Beverages Excise Tax	39,076	33,688	35,911	2,223	-8.1%	33,970	35,890	1,919	-0.1%
District Courts	41,256	46,948	40,269	(6,679)	-2.4%	45,813	42,088	(3,725)	4.5%
Clerks of the Court	36,893	33,304	33,304	-	-9.7%	33,178	33,178	-	-0.4%
Hospital Patient Recoveries	68,829	62,300	62,300	-	-9.5%	63,200	63,200	-	1.4%
Interest on Investments	48,978	75,000	125,000	50,000	155.2%	50,000	50,000	-	-60.0%
Miscellaneous	331,920	403,082	422,228	19,146	27.2%	321,864	335,196	13,332	-20.6%
Total	2,207,988	2,213,424	2,322,528	109,104	5.2%	2,062,611	2,101,916	39,305	-9.5%
Total Current Revenues	24,058,218	24,583,391	24,639,226	55,835	2.4%	25,376,636	25,209,867	(166,769)	2.3%
Extraordinary Revenues ¹	16,311	-	-	-	-100.0%	-	-	-	
Rental Housing Fund ²	(30,000)	-	-	-		-	-	-	
Blueprint for Maryland's Future Fund ³	-	(800,000)	(800,000)	-		-	-	-	
Revenue Volatility Cap ⁴	-	(100,000)	(100,000)	-		(120,000)	(120,000)	-	20.0%
GRAND TOTAL ⁵	24,044,529	23,683,391	23,739,226	55,835	-1.3%	25,256,636	25,089,867	(166,769)	5.7%

¹ Amount reflects a payment to the General Fund from the Maryland Technology Development Corporation (TEDCO).

² Chapters 336 & 337 of 2022 diverted \$30 million from individual income tax revenues to the Rental Housing Fund.

³ Chapter 33 of 2022 diverts \$800 million from individual income tax revenues to the Blueprint Fund.

⁴ Established by Chapters 4 & 550 of 2017 and amended by several succeeding Budget Reconciliation And Financing Acts.

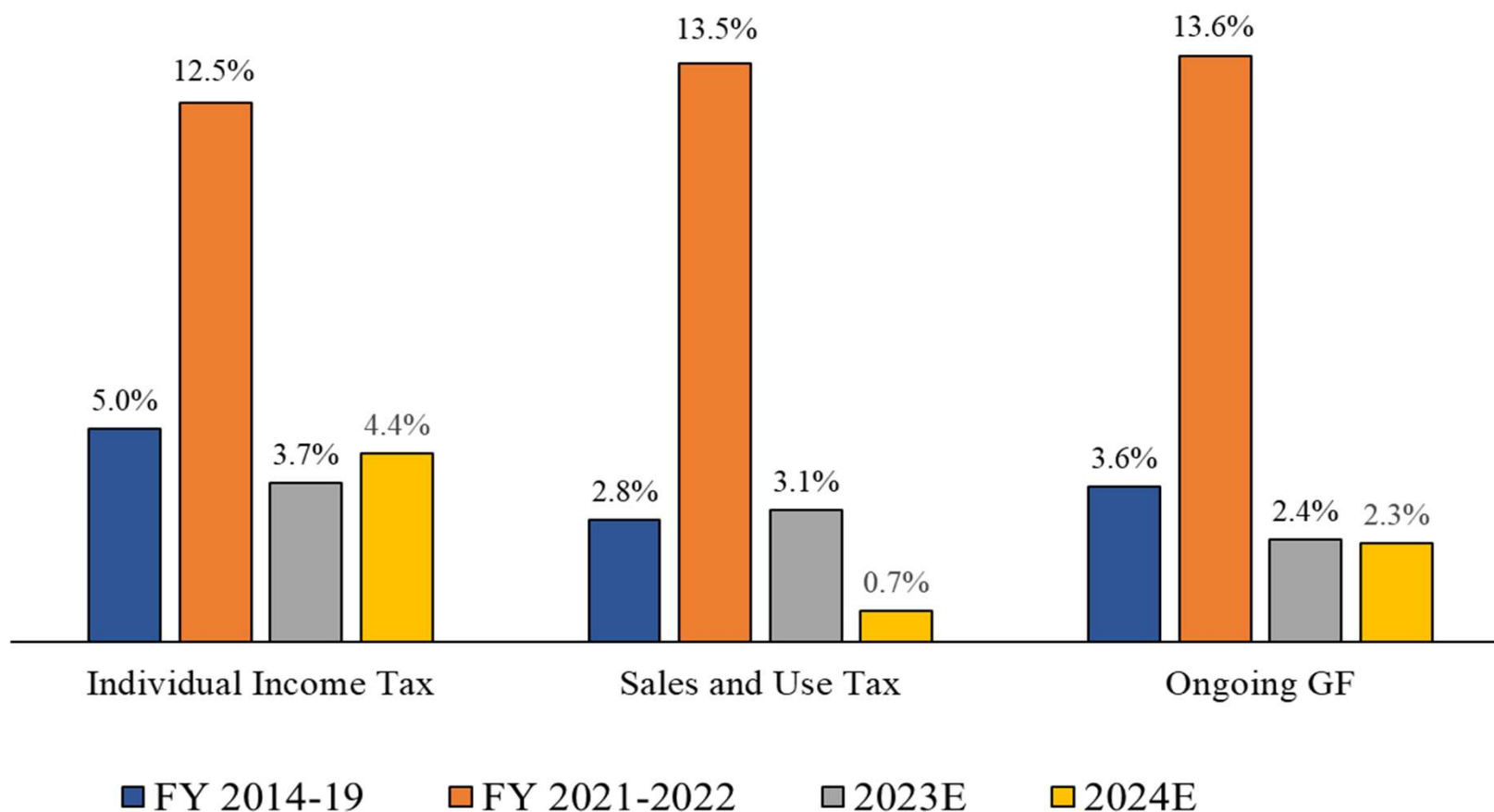
⁵ In FY 2022, \$870.3 million of specified income tax revenues was transferred to the Rainy Day Fund and Fiscal Responsibility Fund per the requirements of the Revenue Volatility Cap.

Summary of December Changes

	Fiscal Year 2023		Fiscal Year 2024	
	\$ Change From Est	% Growth From Prior Year	\$ Change From Est	% Growth From Prior Year
Personal Income Tax	(\$39.3)	3.7%	(\$178.6)	4.4%
Corporate Income Tax	\$0	-13.1%	\$0	9.8%
Sales Tax	\$0	3.1%	\$0	0.7%
Other	\$95.1	4.1%	\$11.9	-7.9%
Total – Ongoing Revenues	\$55.8	2.4%	(\$166.8)	2.3%

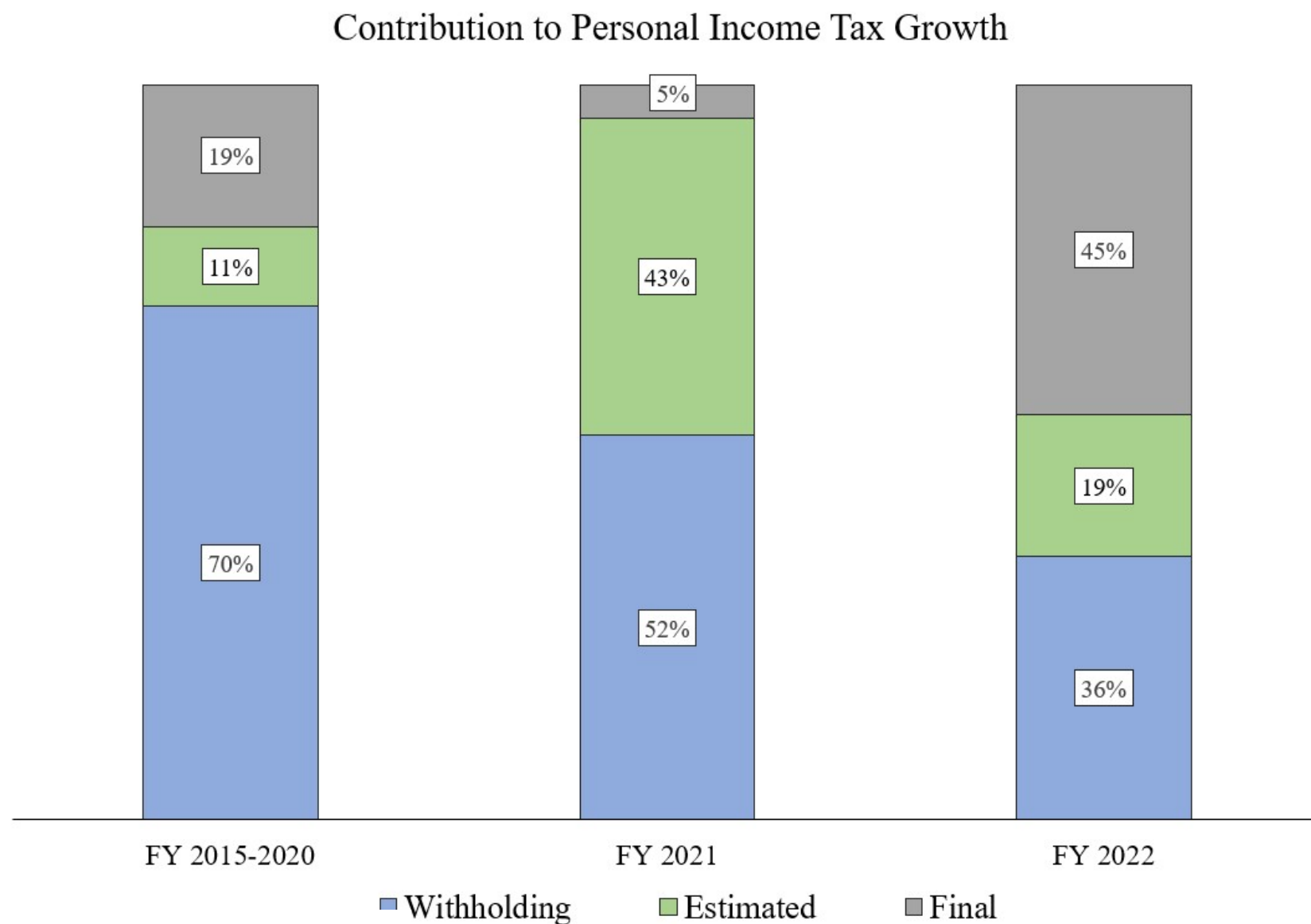
Notes: dollars in millions; amounts may not sum from rounding.

Revenue Growth is Moderating

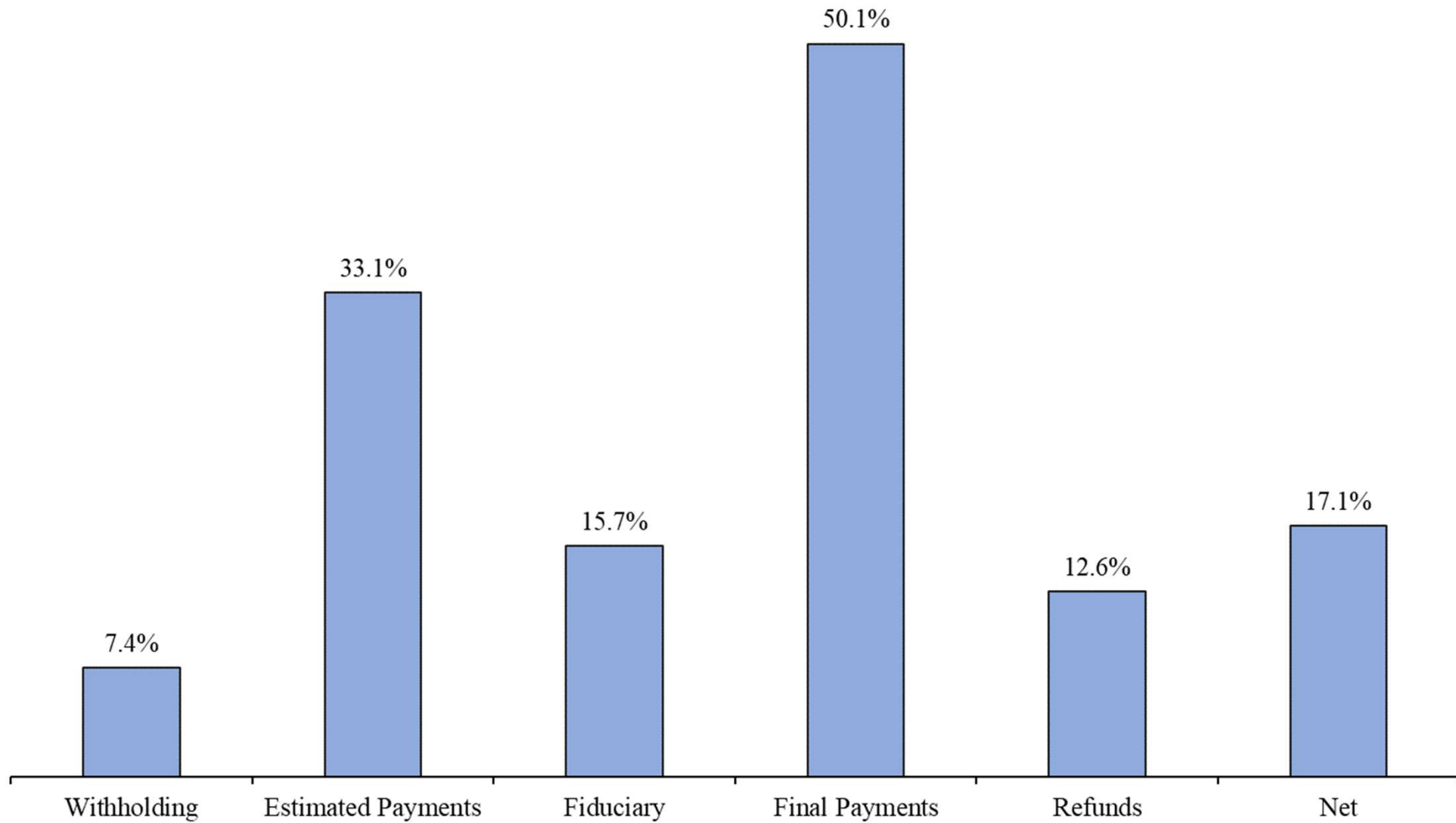


Source: Bureau of Revenue Estimates

Estimated and Final Payments are Driving Recent Individual Income Tax Revenues

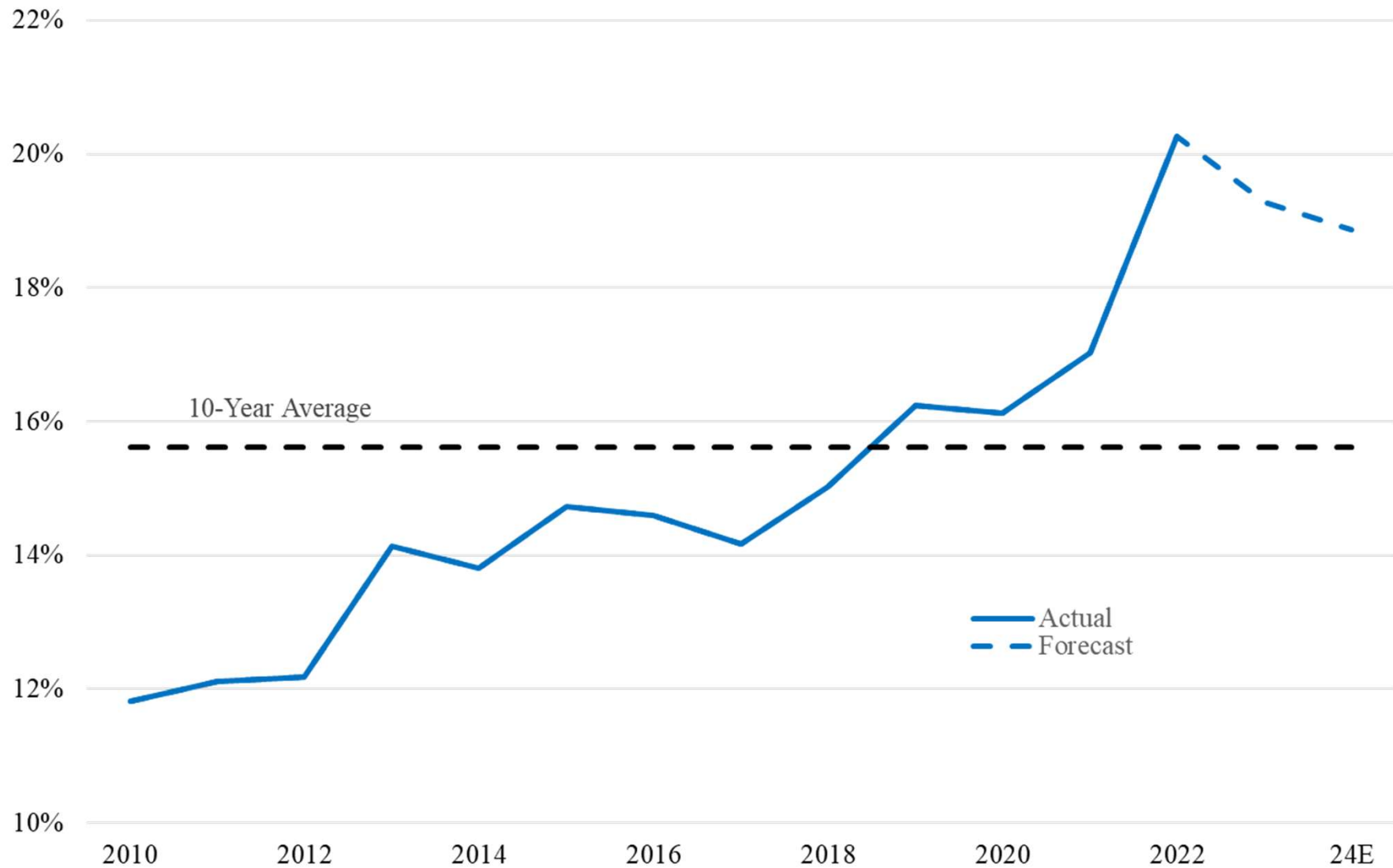


Tax Year 2021 Increase by Tax Component



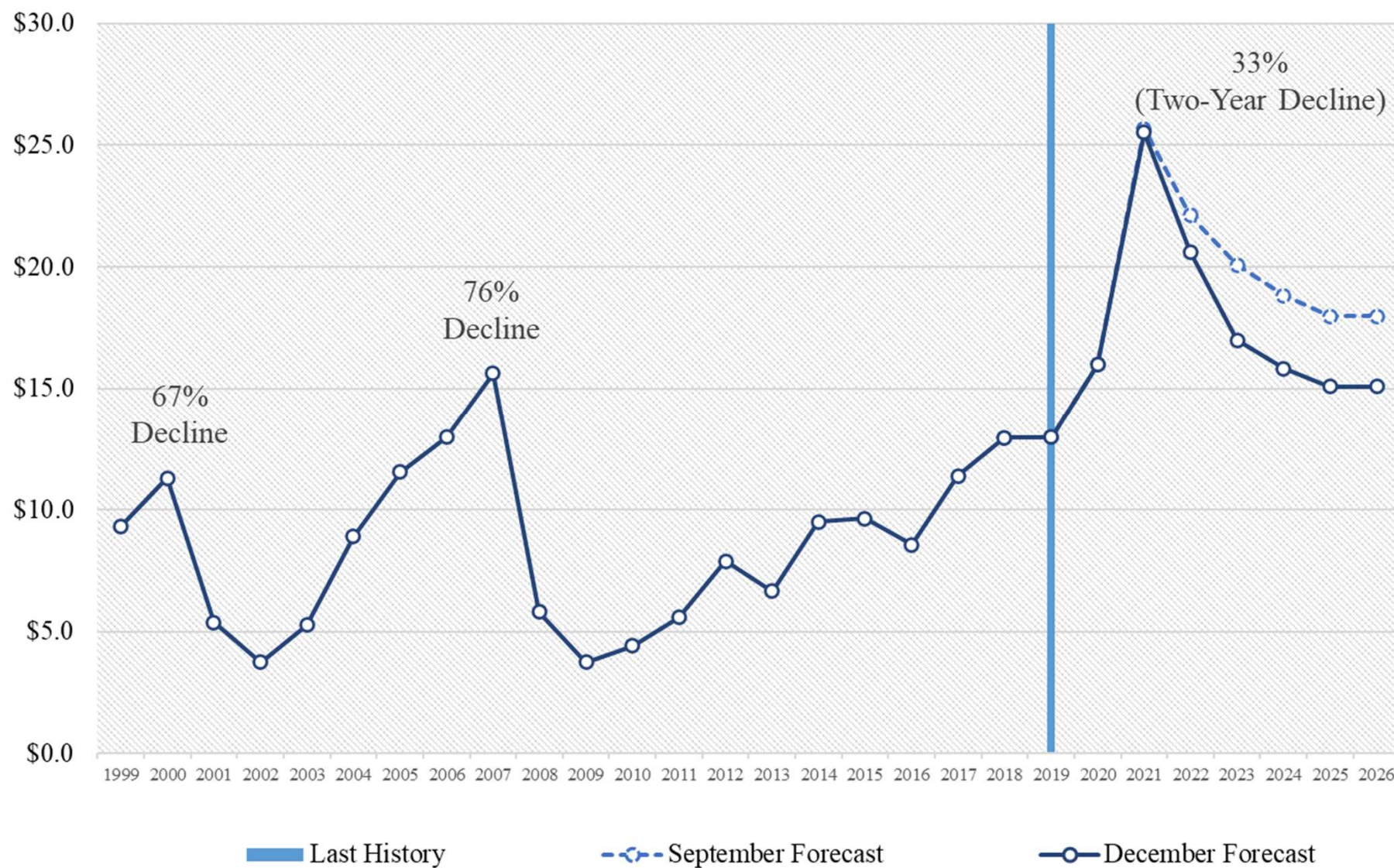
Source: Bureau of Revenue Estimates

Nonwithholding Revenues Percent of General Fund Revenues by Fiscal Year



Note: FY 2023 does not reflect impact of \$800 million PIT transfer
Source: Bureau of Revenue Estimates

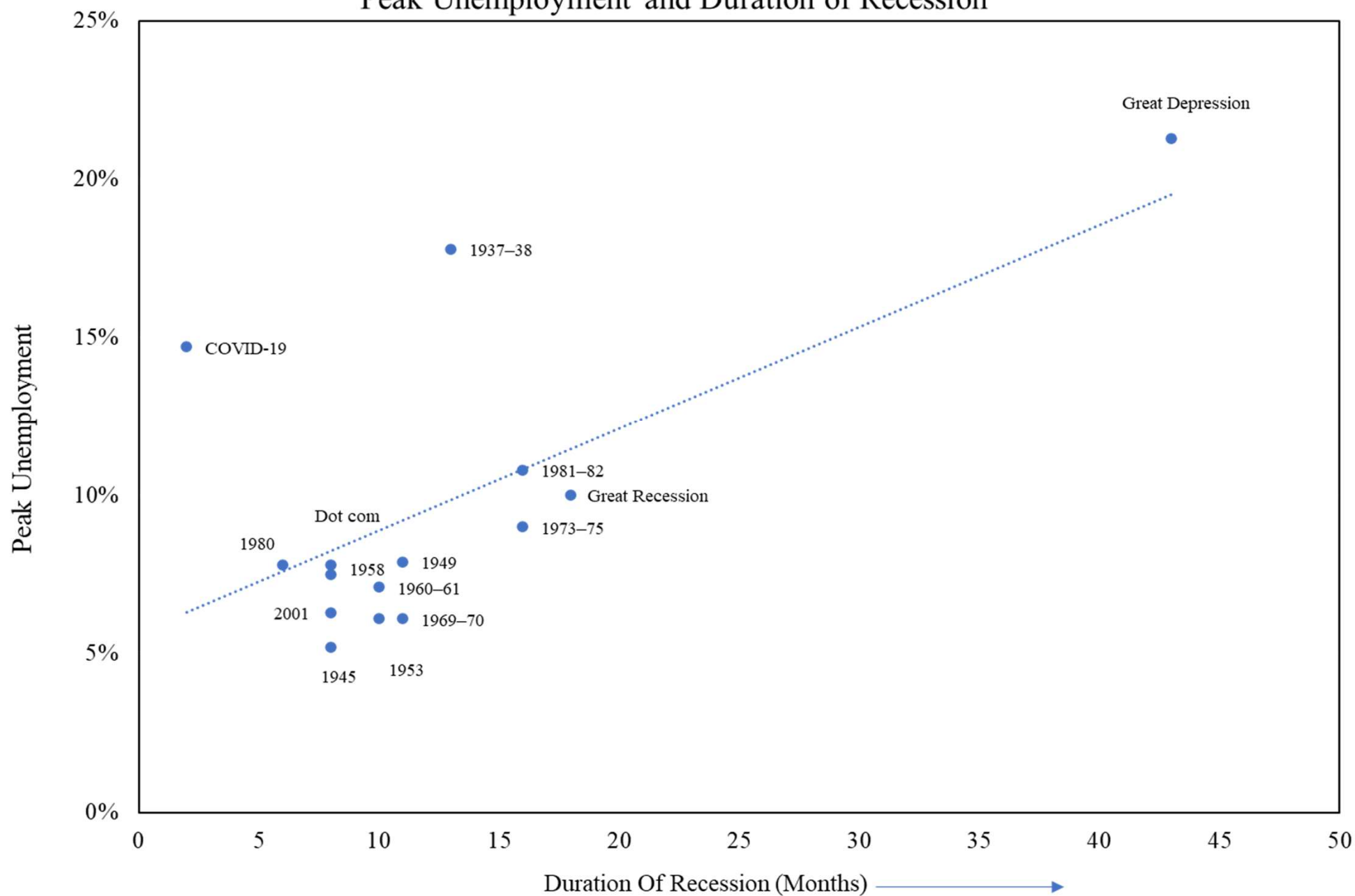
Capital Gains Forecast by Tax Year (\$ in Billions)



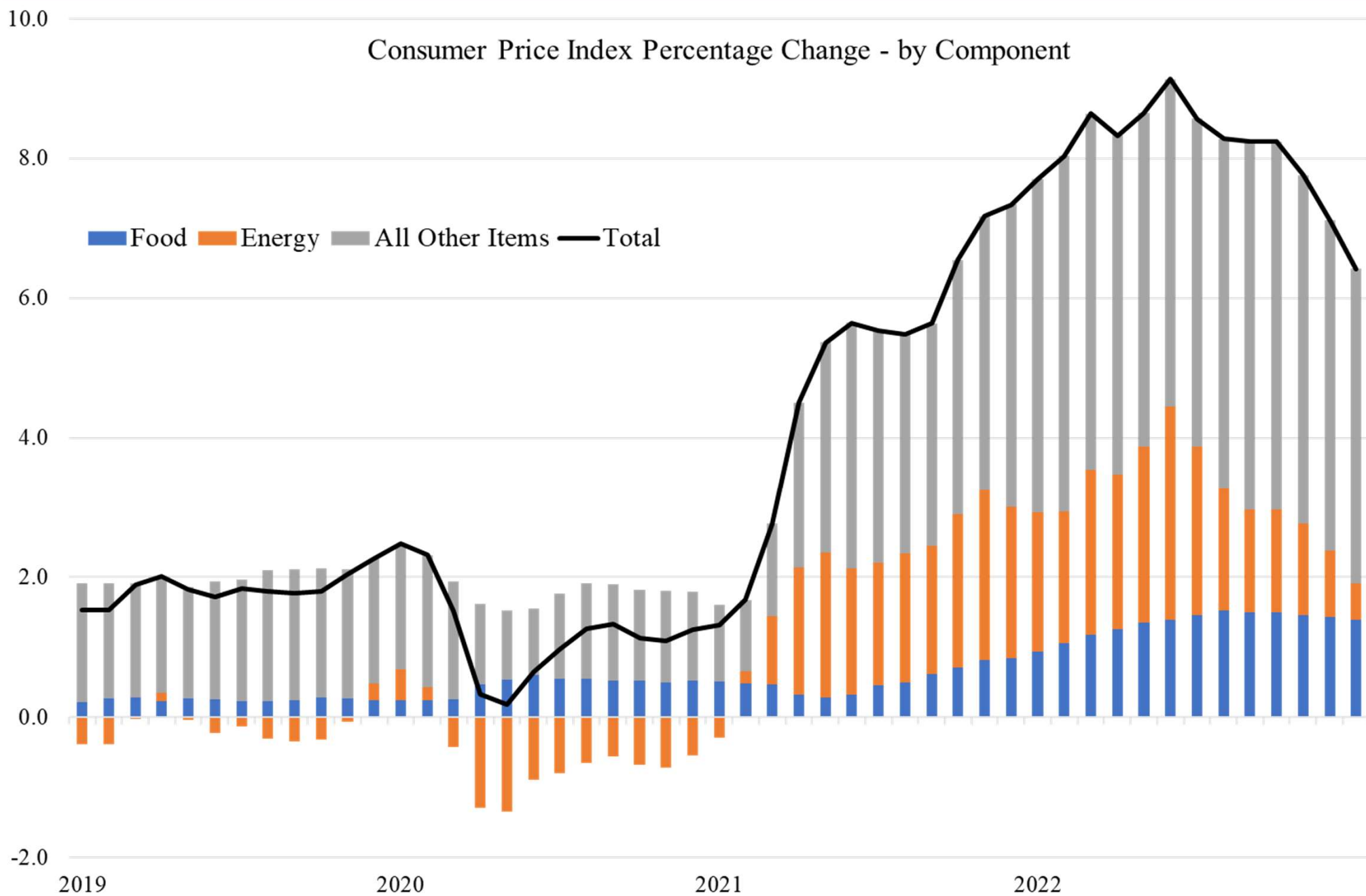
Forecast Risks

- Risk of recession remains elevated and poses downside risk to our forecast, particularly in FY 2024
- Volatile income sources remain elevated and could decrease more than expected if economic conditions deteriorate
- Labor market continues to add jobs, but recent layoff announcements cloud the picture
 - Maryland layoff notices in calendar 2022 are elevated compared to normal years and include a significant portion within the Professional, Scientific, and Technical Industries
- Although major revenue sources do not show a concerning slowdown, other revenues have recently slowed more than expected
- Recent improvements to consumer finances show signs of reversing
- Federal government spending interruptions
- New and ongoing economic shocks

Recessions Have Very Different Impacts: Peak Unemployment and Duration of Recession



Source: Bureau of Revenue Estimates



Source: U.S. Bureau of Labor Statistics; Bureau of Revenue Estimates

In Summary

- Economy has slowed compared to recent, unusually strong growth but labor market and consumer spending continue to grow
 - As in previous forecasts, the December forecast has significant slowdown in growth
- Risk of recession poses downside risk to forecast
 - Inflation has recently moderated, but must decrease significantly more before the Federal Reserve can stop interest rate increases
- Nonwage income is at very high levels and remains a risk
 - Typically, these peaks are not sustainable for extended periods of time
 - Magnitude and timing of any downturn is particularly difficult to estimate
 - Nonwage income downturns typically occur rapidly but then also grow back rapidly

The Relief Act of 2021

- Ch. 39 of 2021 (the Relief Act):
 - Emergency legislation enacted to provide income tax relief, one-time economic impact payments, and other forms of immediate assistance to businesses and employers impacted by the COVID-19 pandemic
- 435,162 tax returns received \$182.9 million in economic impact payments, nearly all of which was received in FY 2021
- Enacted enhancements to the refundable earned income credit:
 - Credit percentage increased from 28% to 45% of the federal earned income tax credit, minus any pre-credit State tax liability
 - Individuals without qualifying children can claim a credit equal to 100% of the federal credit, subject to a maximum of \$530
 - Applies to tax years 2020 through 2022

Chapter 40 of 2021

- Expanded eligibility for the State and local earned income credits to taxpayers who do not meet federal identity requirements which generally require a taxpayer have a valid Social Security number at the time of tax filing
- These taxpayers file using an Individual Taxpayer Identification Number (ITIN)
- Also extends eligibility to State and local poverty tax credits
- Applies to tax years 2020 through 2022

Other Recent State Legislation

- Chapters 611 and 612 of 2018 expanded credit eligibility for individuals without a qualifying child by eliminating the requirement that the individual must be at least age 25
- Chapters 110 & 111 of 2022 established the Maryland Earned Income Tax Credit Assistance Program for Low-Income Families
 - Designed to facilitate claiming the credit and increase its participation
 - Program will begin with tax year 2025

Recent Federal Legislation

- In tax years 2020 and 2021, federal legislation allowed taxpayers to use prior year income to calculate the federal earned income tax credit
 - Assisted taxpayers whose earnings decreased due to the COVID-19 recession
- American Rescue Plan Act (ARPA) of 2021
 - Temporarily enhanced in tax year 2021 the credit for individuals without qualifying children by increasing the maximum credit and income at which the credit phases out
 - The Act made permanent other modest changes

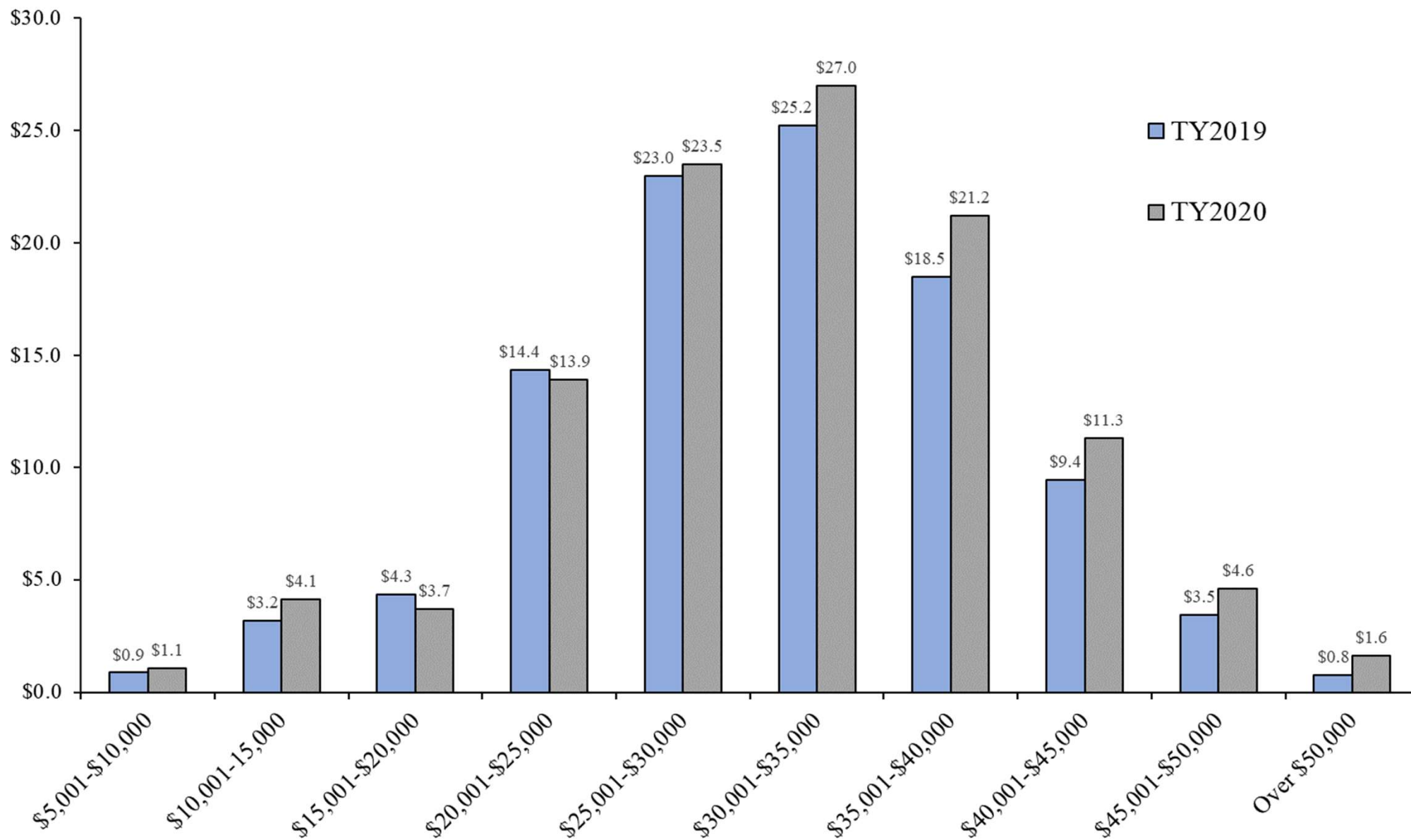
State Earned Income Data

State earned income credits claimed in tax year 2020:

Nonrefundable credits	\$112 million (255,000 returns)
<u>Refundable credits</u>	<u>\$304 million (360,000 returns)</u>
Total Credits	\$416 million (479,000 returns)

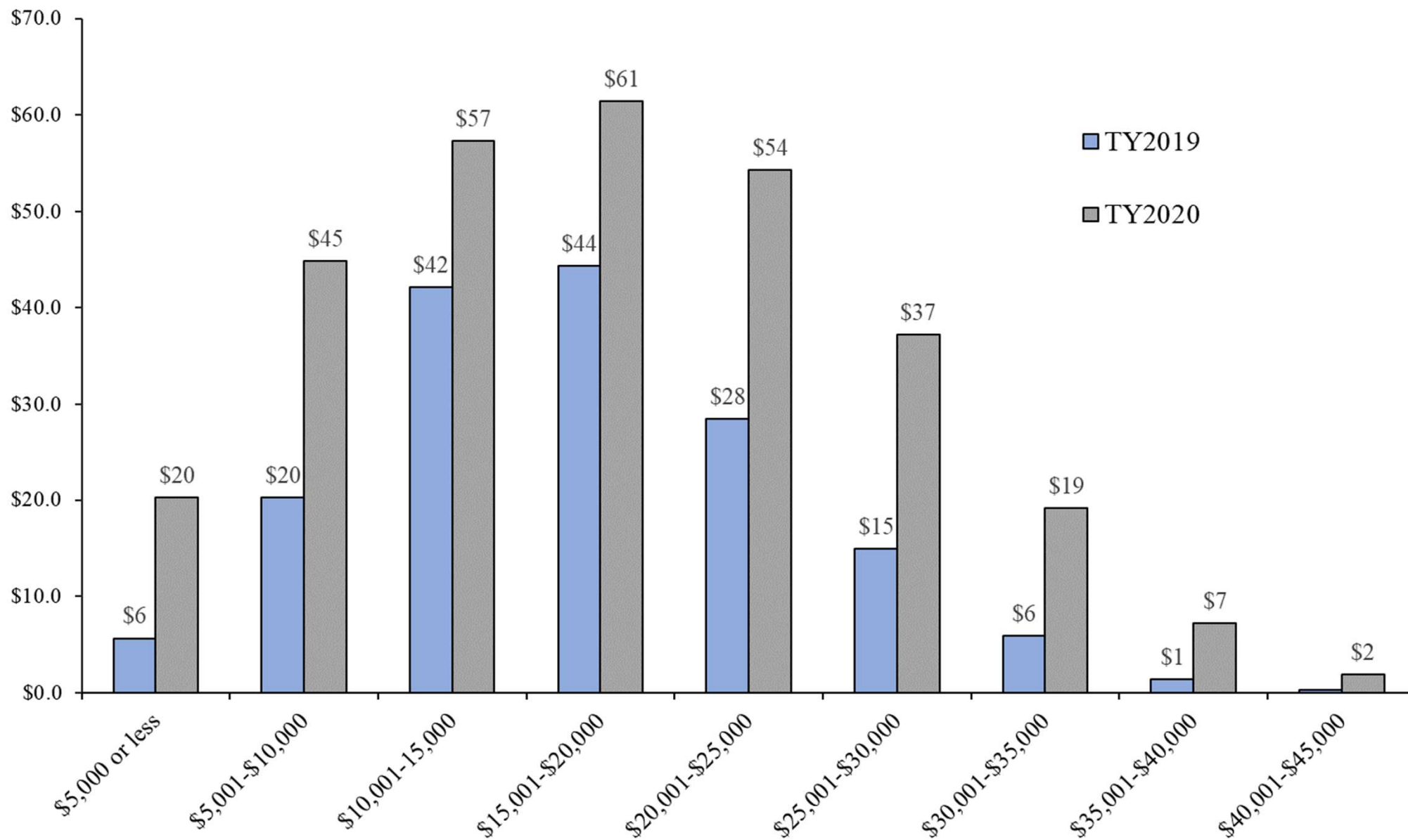
- Taxpayers also claimed \$71 million in nonrefundable tax credits against the local income tax – the total State and local fiscal impact was \$487 million
- About \$150 million in additional State earned income credits were claimed from tax year 2019 to 2020
- Of this amount, about 47,000 ITIN filers claimed a total of \$43 million in State earned income credits

Total Non-Refundable Credits Claimed by Federal AGI
Tax Years 2019-2020



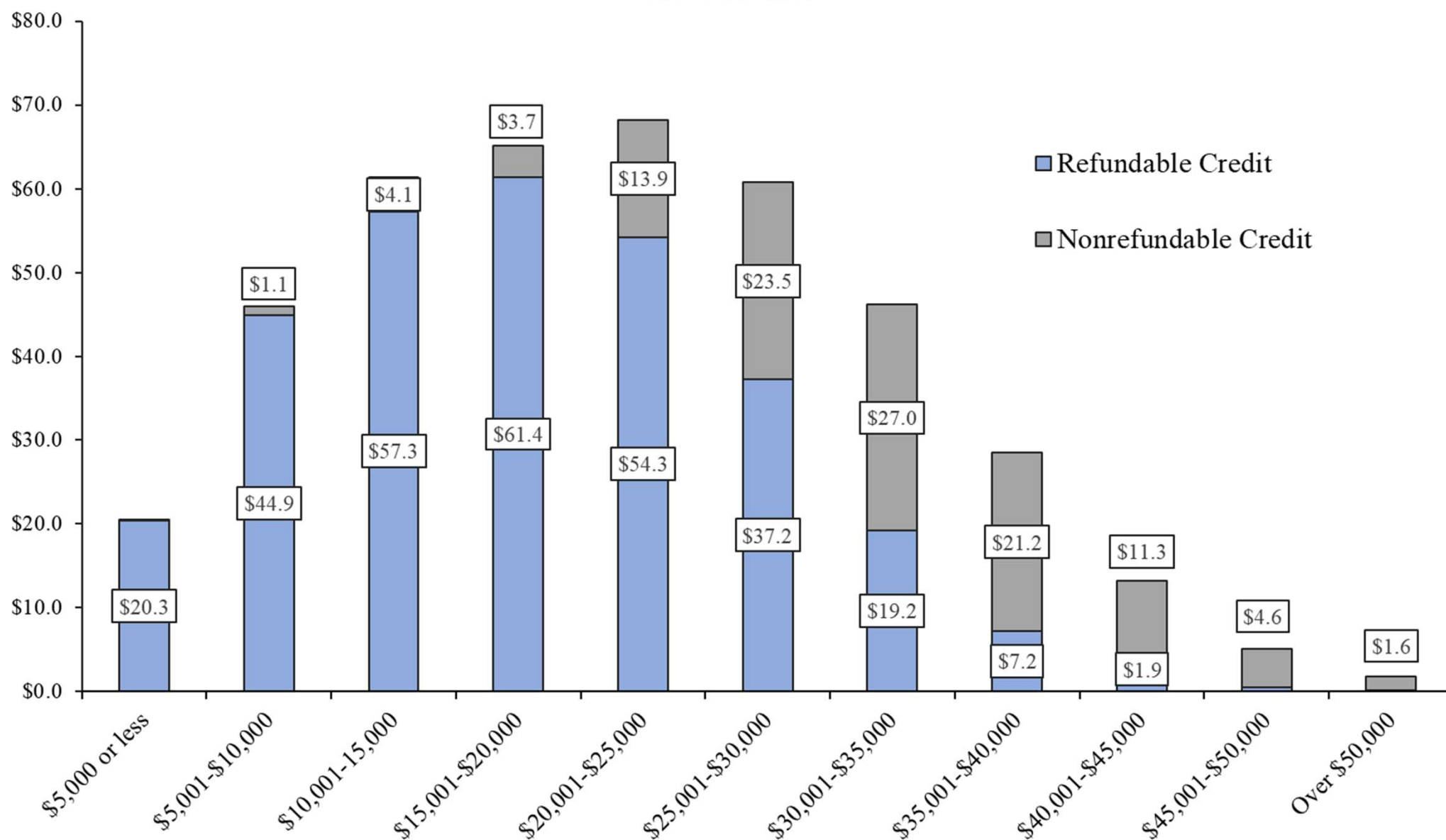
Source: Bureau of Revenue Estimates

Total Refundable Credits Claimed by Federal AGI
Tax Years 2019-2020



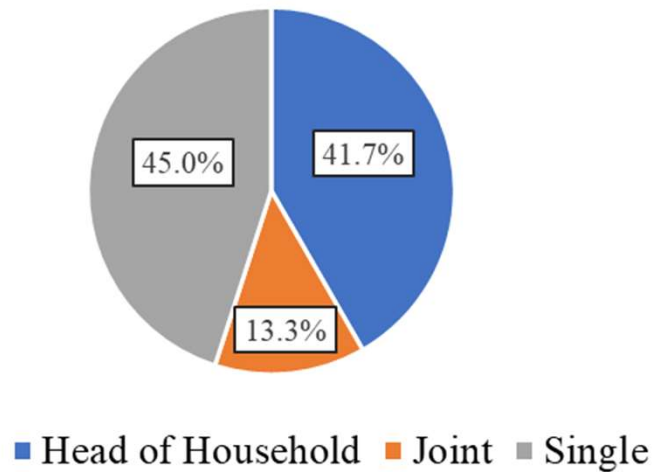
Source: Bureau of Revenue Estimates

Total Credits Claimed by Federal AGI Tax Year 2020



Source: Bureau of Revenue Estimates

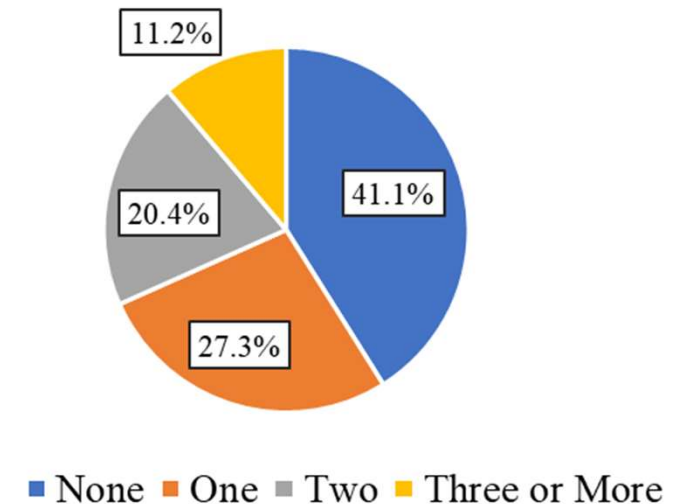
% Returns by Filing Status- All Returns
Tax Year 2020
Refundable Credit



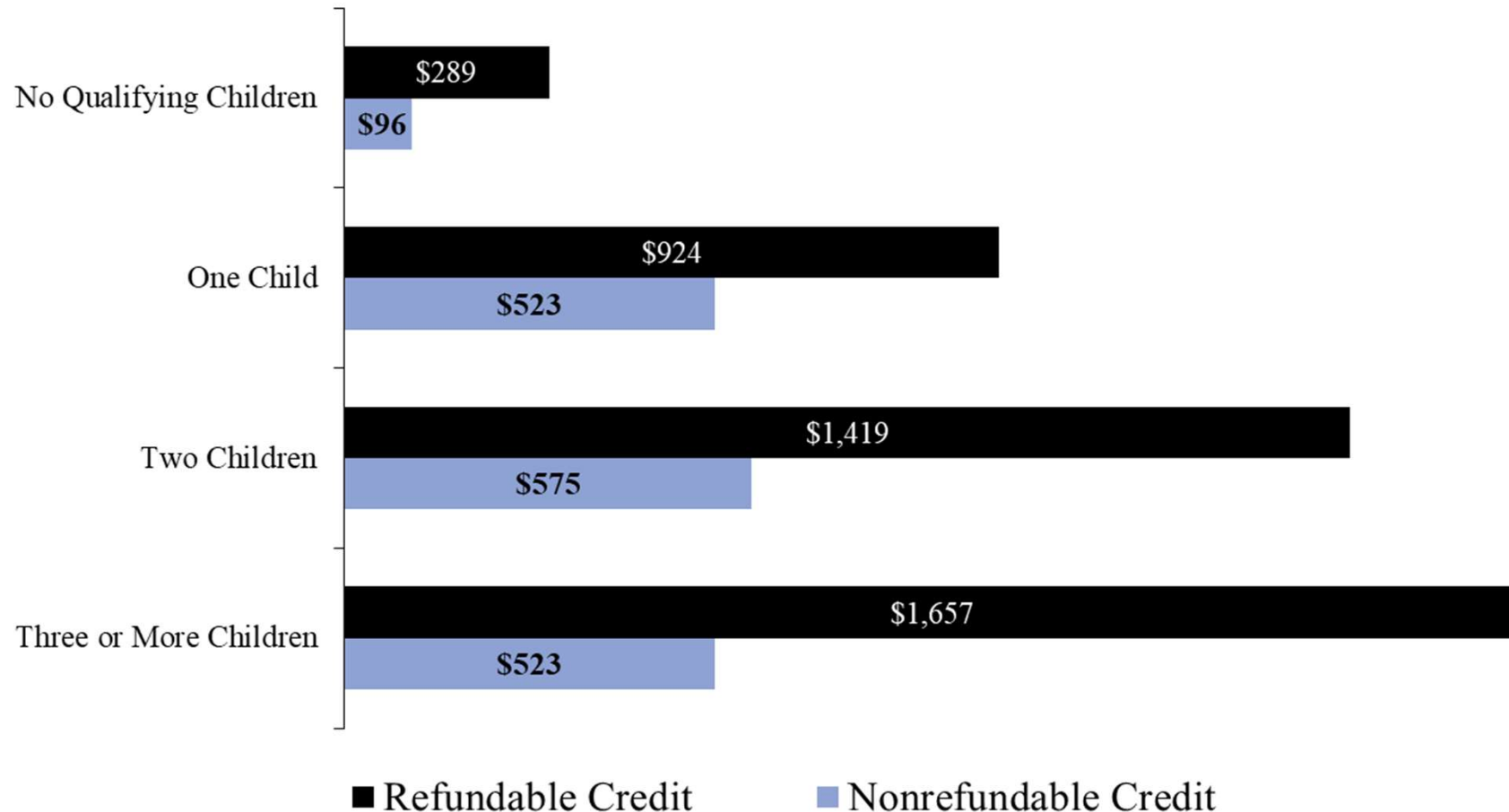
- More than 80% of taxpayers claiming the refundable credit file as head of household or single

- 41% of those claiming the refundable credit do not have qualifying children
- 59% have at least one qualifying child

% Returns by Children - All Returns
Tax Year 2020
Refundable Credit

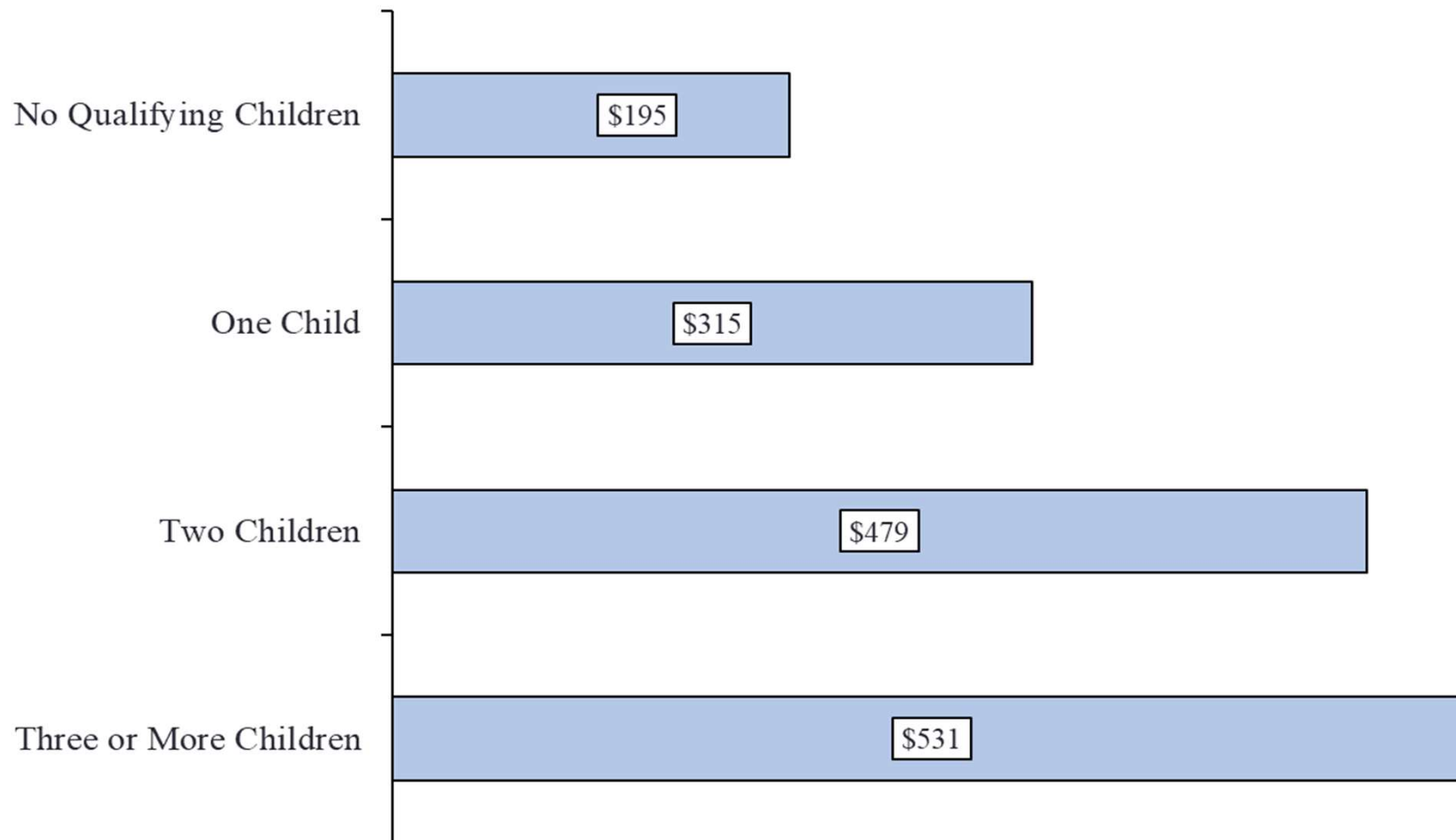


Average Credits Claimed by Qualifying Children Tax Year 2020



Source: Bureau of Revenue Estimates

Average Increase in Refundable Credit Tax Year 2019-2020



Source: Bureau of Revenue Estimates

Tax Year 2020 Refundable EIC Claims All Taxpayers

County	Claimants	Total Claimed (\$ in Millions)	% of Total Returns	Per Capita Benefit	
				2020	Increase
Allegany	4,617	\$4.0	16.0%	\$53	\$22
Anne Arundel	25,756	21.1	9.1%	\$39	\$19
Baltimore	50,894	44.0	12.4%	\$55	\$24
Baltimore City	51,499	45.8	19.8%	\$78	\$31
Calvert	3,518	2.7	7.9%	\$30	\$13
Caroline	2,449	2.3	15.8%	\$69	\$30
Carroll	5,796	4.4	6.9%	\$26	\$12
Cecil	5,348	4.6	11.2%	\$45	\$18
Charles	8,784	7.1	10.8%	\$49	\$21
Dorchester	3,100	2.8	19.9%	\$87	\$34
Frederick	11,927	9.3	8.9%	\$40	\$20
Garrett	1,764	1.5	13.0%	\$49	\$21
Harford	11,558	9.4	9.0%	\$38	\$16
Howard	12,779	10.0	8.1%	\$35	\$16
Kent	1,040	0.9	11.3%	\$45	\$21
Montgomery	56,265	46.1	10.8%	\$47	\$24
Prince George's	69,406	59.0	14.9%	\$68	\$35
Queen Anne's	2,063	1.6	8.3%	\$34	\$17
St. Mary's	5,034	4.4	9.6%	\$42	\$17
Somerset	1,932	1.8	21.7%	\$69	\$28
Talbot	2,137	1.9	11.1%	\$49	\$24
Washington	10,140	8.9	14.0%	\$60	\$25
Wicomico	8,670	7.9	18.3%	\$80	\$34
Worcester	3,311	2.8	11.6%	\$54	\$22
Total	359,787	\$304.2	12.2%	\$53	\$25

Note: Increase reflects per capita increase in refundable credits from TY 19 to TY 20

Source: Bureau of Revenue Estimates

Thank You

Robert J. Rehrmann, Director
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Bureau of Revenue Estimates
Comptroller of Maryland